



Memorandum # 9/2004

Commonwealth of Massachusetts | Public Employee Retirement Administration Commission
Five Middlesex Avenue, Third Floor, Somerville, MA 02145
Ph 617 666 4446 | Fax 617 628 4002 | TTY 617 591 8917 | www.mass.gov/perac
Robert E. Tierney, *Chairman* | A. Joseph DeNucci, *Vice Chairman*
C. Christopher Alberti | Kenneth J. Donnelly | Eric A. Kriss | James M. Machado | Donald R. Marquis
Joseph E. Connarton, *Executive Director*

MEMORANDUM

TO: All Retirement Boards

FROM: Joseph E. Connarton, Executive Director

RE: Re-certification of Investment Consultants

DATE: January 21, 2004

For many retirement boards, investment consultants play a major and constructive role in helping to set investment policies and strategies, determine asset allocation, conduct investment manager searches, as well as monitoring and evaluating investment manager performance.

While PERAC encourages boards to utilize the services of a qualified investment consultant, the nature of the business requires boards to be certain that there are no actual or potential conflicts of interest between the consultant and any investment managers. PERAC's revised Disclosure Forms are intended to require disclosure of any financial relationships between consultants and managers. The Securities and Exchange Commission has recently begun a fact-finding inquiry into this area.

Since many of the existing relationships between Massachusetts public retirement boards and their consultants began during 1999 following the issuance of the Investment Regulations (840 CMR), we would like to remind affected boards of provision 26.04(3) of the regulations, which states that: "Starting January 1, 1999, on or before the fifth anniversary of the hiring of a consultant and every fifth year thereafter, the retirement board shall request authorization from the Commission to continue to retain that consultant."

For those boards to which this might apply, this regulation does not require boards to conduct a new search process with regard to its consultant. It simply requires that boards conduct an explicit re-evaluation of its consultant at the time of the five-year anniversary of the relationship. Those boards electing to continue their relationship with their current consultant need only submit to us updated Exemption Application and Disclosure Forms, as completed by the consultant.

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For the benefit of those boards who currently utilize a consultant as well as boards who might be considering the hiring of one, we are enclosing a recent publication by the Government Finance Officers Association (GFOA) entitled "A Guide for Selecting Pension Investment Consultants". We believe this guide presents a very helpful outline of many of the important issues to consider in hiring and evaluating a consultant.

Of course, it is important that boards formally re-evaluate *all* their investment vendors (i.e., managers and custodians) at reasonable intervals not only to judge their performance but also to examine pertinent changes in organization, personnel, style, or process that may have occurred. Accordingly, we wish to remind boards of Regulation 16.07(2), which requires boards to meet with all managers at least once every year and Regulation 16.07(3), which requires boards to make an annual determination as to whether each investment manager is satisfactorily fulfilling its mandate.

The PERAC Investment Unit would be pleased to respond to any questions or requests for assistance on these matters.

Enclosure